

Reflection on Gruber tax chapters, due Monday 3/28/2016

Note: The text of your responses should be submitted in plain text by e-mail. Your graphs should be drawn by hand and submitted as paper copies.

Chapter 18

1. What is the difference between a progressive, a regressive, and a proportional tax? Give an example of each.
2. Give four reasons why it might be considered appropriate for two people with the same income (in a strict Haig-Simons sense) to pay different income tax amounts.

Chapter 19

3. “Whether consumers or producers bear more of the burden of a tax depends not on which side of the market must pay the tax itself, but on which side is less elastic.” Explain, using graphs, why this statement is true under most circumstances.
4. Explain roughly how a general equilibrium analysis of tax incidence may differ from a partial equilibrium analysis of the same.

Chapter 20

5. Explain, using graphs, why the deadweight loss of a tax is greater when supply and/or demand are more elastic.
6. Explain, using graphs, why deadweight loss grows as a proportion of tax revenue as the tax increases, and use this to construct a simple argument in favor of proportional income taxes on efficiency grounds.
7. Sketch and explain the Laffer curve.

Chapter 21

8. Explain how the earned income tax credit (EITC) works, and discuss its theoretical effect on the labor supply of different income groups, in terms of income effects, substitution effects, and total effects.

9. Using child care as an example, explain how taxation generally encourages non-market activity at the expense of market activity.

Chapter 22

10. Given a simple intertemporal choice model with two time periods, discuss the substitution effects and income effects of a tax on saving.

11. Explain the basic workings of 401(k) accounts, traditional IRAs, Roth IRAs, and Keogh accounts.

Chapter 23

12. In what ways does capital gains income receive favorable tax treatment in the US, relative to wage income?

13. Summarize the major arguments for and against this favorable tax treatment of capital gains.

14. Explain roughly how the US estate tax works. Summarize the major arguments for and against it.

Chapter 24

15. Explain why a pure profits tax, if feasible, would be non-distorting (i.e. efficient). In what key ways does the actual US corporate income tax differ from a pure profits tax?

16. Explain how payment of dividends is effectively discouraged by the US tax code, and suggest reasons why some firms choose to pay dividends anyway.

17. In what ways does corporate income earned overseas receive a tax advantage relative to corporate income earned domestically?

Chapter 25

18. What suggestions would you make for reforming the tax code? You can use the discussion in chapter 25 if you like, but your goal here isn't to summarize it; this last question is more open-ended and self-directed than the ones above. You should support each suggestion with a brief argument, but you don't have to go into great detail.